



# February 2005 Finance Report

## Information Technology Investment Board Finance and Audit Committee Meeting February 1, 2005

This month's finance report provides information on the following topics:

- FY 2005 mid-year financial results
- Savings update
- 2004 – 2006 biennial budget amendments update

### December 2004 Financial Results

#### December 2004 Financial Results All Funds

	<i>FY2005 Adjusted Budget</i>	<i>December 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i>
<b>Operating Revenues, incl transfers in</b>	<b>\$258,062,096</b>	<b>\$102,684,263</b>	<b>40%</b>
<b>Expenses, incl transfers out</b>	<b><u>261,828,742</u></b>	<b><u>103,382,505</u></b>	<b>39%</b>
<b>Net Change</b>	<b>(3,766,646)</b>	<b>(698,242)</b>	
<b>Retained Earnings, July 1</b>	<b><u>45,267,229</u></b>	<b><u>45,267,229</u></b>	
<b>Ending Retained Earnings</b>	<b><u>\$41,500,583</u></b>	<b><u>\$44,568,987</u></b>	

The FY 2005 Adjusted Budget reflects those changes approved by the Information Technology Investment Board on December 8, 2004. Financial activity through the first six months of fiscal year 2005 in all funds is on target. VITA's cash position remains a concern; it is described in more detail under the Internal Service Fund Results section. The pending liability in the enterprise E-911 fund was less than the expectation reported in the December Finance Report, and is described in further detail in the Enterprise Funds section below.

**December 2004 Financial Results  
Internal Services Fund**

	<i>FY2005 Adjusted Budget</i>	<i>December 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i>
<b>Operating Revenues, incl transfers in</b>	<b>\$212,873,100</b>	<b>\$78,082,068</b>	<b>37%</b>
<b>Expenses, incl transfers out</b>	<b><u>210,904,274</u></b>	<b><u>77,876,756</u></b>	<b>37%</b>
<b>Net Change</b>	<b>1,968,826</b>	<b>205,312</b>	
<b>Retained Earnings, July 1</b>	<b><u>27,788,000</u></b>	<b><u>27,788,000</u></b>	
<b>Ending Retained Earnings</b>	<b><u>\$29,756,826</u></b>	<b><u>\$27,993,312</u></b>	

Revenues and expenses, as a percent of total budget, are lower in the first six months of the fiscal year due to the graduated pace of large agency transitions, as previously reported.

VITA's cash balances in its Internal Services Fund continue to be of concern. The "Direct Bill" implementation is responsible for almost \$14 million of the decrease in cash of \$20 million since June 30 (see Exhibit C, ISF Statement of Cash Flows). (As previously reported Direct Bill requires VITA to pay salaries and vendor invoices for transitioned agency IT goods and services and then bill these costs plus the approved administrative fee back to the transitioned agencies. This results in a lag between payment for goods and services and receipt of customer revenues, causing a decrease in cash balances.) We are pursuing Accounts Receivable delinquencies; these currently amount to seven percent of all receivables. Those over thirty days late account for two percent.

Prompt pay compliance for November (96.4%) and December 2004 (95.9%) significantly improved over October's 86.5% as VITA Finance staff vigorously pursued issues associated with the large agency transition. As previously reported, implementing the receiving procedure seems to be the largest hurdle related to eVA for the transitioned agencies. VITA continues to ensure all staff are aware of the new procedures and work with DGS to make improvements. These efforts are on-going.

**December 2004 Financial Results  
Enterprise Funds**

	<b>FY2005 Adjusted Budget</b>	<b>December 2004 Actual Results</b>	<b>Actual as a Percent of Adjusted Budget</b>
<b>Operating Revenues, incl transfers in</b>	<b>\$40,200,000</b>	<b>\$21,842,889</b>	<b>54%</b>
<b>Expenses, incl transfers out</b>	<b>43,159,000</b>	<b>23,369,791</b>	<b>54%</b>
<b>Net Change</b>	<b>(2,959,000)</b>	<b>(1,526,902)</b>	
<b>Retained Earnings, July 1</b>	<b>14,403,865</b>	<b>14,403,865</b>	
<b>Ending Retained Earnings</b>	<b>\$11,444,865</b>	<b>\$12,876,963</b>	

VITA's Enterprise Funds are comprised of the portal access program and E-911. The portal program had revenues of \$18 million through December 31, of which \$14 million was paid to state agencies. Remaining expenses were for contractor payments and operating needs.

The Virginia Wireless E-911 Services fund took in \$18 million in revenue during the first six months of the year and paid out almost \$19 million to providers, accounting for the loss in the fund through December 2004. The potential liability discussed in the December Finance Report is estimated at \$13 million, almost \$7M less than previously anticipated. As a result, the fund will be able to sustain this liability without resorting to prorating the costs for each recipient of funding and carrying the unpaid amounts into the future (as required by Code).

**December 2004 Financial Results  
General Fund**

	<b>FY2005 Adjusted Budget</b>	<b>December 2004 Actual Results</b>	<b>Actual as a Percent of Adjusted Budget</b>
<b>Operating Revenues, incl transfers in</b>	<b>\$2,380,324</b>	<b>\$1,081,022</b>	<b>45%</b>
<b>Expenses, incl transfers out</b>	<b>2,380,324</b>	<b>1,081,022</b>	<b>45%</b>
<b>Net Change</b>	<b>0</b>	<b>0</b>	
<b>Retained Earnings, July 1</b>	<b>0</b>	<b>0</b>	
<b>Ending Retained Earnings</b>	<b>\$0</b>	<b>\$0</b>	

Funds provided through the Commonwealth's General Fund are ear-marked primarily to support VITA's Strategic Management Services directorate. Spending is on target with the budget with about one-half of the funds expended through December. Because the funds must be used in the year appropriated, expenditures will not exceed appropriations at the end of the fiscal year.

In early January 2005, VITA received \$6.1 million in startup funds for consolidation and specified Independent Verification and Validation (IV&V) activities. This was a reduction of \$1.2 million from the original request resulting from the CIO's decision not to proceed with the e-mail consolidation project originally included in our plan. These one-time funds will allow VITA to proceed with small agency support, customer care center upgrades, network security initiatives and other integration-related initiatives, and must be spent by June 30, 2005.

### December 2004 Financial Results Special Revenue Funds

	<i>FY2005 Adjusted Budget</i>	<i>December 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i>
<b>Operating Revenues, incl transfers in</b>	<b>\$2,422,049</b>	<b>\$1,491,661</b>	<b>62%</b>
<b>Expenses, incl transfers out</b>	<b><u>3,205,450</u></b>	<b><u>90,696</u></b>	<b>3%</b>
<b>Net Change</b>	<b>(783,401)</b>	<b>1,400,965</b>	
<b>Retained Earnings, July 1</b>	<b><u>1,082,293</u></b>	<b><u>1,082,293</u></b>	
<b>Ending Retained Earnings</b>	<b><u>\$298,892</u></b>	<b><u>\$2,483,258</u></b>	

Components of the Special Revenue Funds include the IFA, PPEA, GIS, and Virginia Technology Infrastructure funds with December 2004 fund balances of \$1,570,000, \$109,000, 375,000, and \$300,000, respectively. The majority of revenues were in the IFA fund, just over \$1,440,000, while most expenditures (\$91,000) were incurred by the PPEA initiative. Transfers for IFA expenses occur in the fourth quarter, resulting in the low utilization rate shown for December.

**December 2004 Financial Results  
Federal Funds**

	<i>FY2005 Adjusted Budget</i>	<i>December 2004 Actual Results</i>	<i>Actual as a Percent of Adjusted Budget</i>
Operating Revenues, incl transfers in	\$186,623	\$186,623	100%
Expenses, incl transfers out	<u>2,179,694</u>	<u>964,240</u>	44%
Net Change	(1,993,071)	(777,617)	
Retained Earnings, July 1	<u>1,993,071</u>	<u>1,993,071</u>	
Ending Retained Earnings	\$0	\$1,215,454	

VITA is awaiting approval of \$950K in additional Homeland Security funds, intended to build the Commonwealth's incident management capability and submitted to the Virginia Department of Emergency Management (VDEM) in October. Expenditures are on target to complete grant funded activities as planned.

The following financial statements as of December 31, 2004 are provided at the end of this report:

- Combined Balance Sheet for Internal Service Funds—Exhibit A
- Combined Statement of Revenues, Expenses, and Changes in Net Assets for Internal Service Funds—Exhibit B
- Combined Statement of Cash Flows for Internal Service Funds—Exhibit C
- Combined Statement of Revenues, Expenses, and Changes in Net Assets for Enterprise Funds—Exhibit D
- Combined Statement of Revenues, Expenses and Changes in Net Assets for General and Special Revenue Funds—Exhibit E

## Savings Update

VITA has implemented 20 initiatives to date, resulting in estimated savings and cost avoidances shown in Exhibit F:

**Exhibit F  
Savings Initiatives (\$000)**

	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>
Gross Savings	\$15,858	\$26,352	\$28,011
Cost Avoidance	875	1,530	720
<b>Total</b>	<b>\$16,733</b>	<b>\$27,882</b>	<b>\$28,731</b>

VITA launched 15 "Quick Win" initiatives in FY05, the savings of which will be returned to agencies to offset the 5.52 percent administrative fee in FY 2005, estimated at an annualized total of \$6.7 million. As these initiatives are achieved, the resultant savings are included in the above table.

VITA's savings methodology working group finalized its savings methodology report in early January. It is currently under review by VITA management and staff; JLARC and APA staff who were participants on the working group recently provided comments that are being incorporated in the report. Once finalized, the methodology will be presented to the Finance and Audit Committee, the ITIB and the Secretary of Finance.

## **2004 – 2006 Biennial Budget Amendments Update**

VITA submitted to the Department of Planning and Budget (DPB) eleven amendments to the 2004-06 biennial budget on October 13. Eight of the amendments requested additional funding; three requested revisions to language in the current Appropriation Act (Chapter 4).

Governor Warner presented his executive budget proposal to the 2005 members of the House Finance and Appropriations Committees and the Senate Finance Committee on December 17. Included in the Governor's proposal were four of VITA's nine budget amendments and one language amendment, as shown in Exhibit H, in priority order. VITA finance and legislative staff have been working closely with the Secretary of Technology, Secretary of Finance and the General Assembly to address issues and questions related to VITA's amendments as well as preparing fiscal impact statements on proposed legislation.

Several budget amendments of interest to VITA were submitted by members of the House and Senate. Generally, these amendments build upon or complement the Governor's funding recommendations. The specific issues addressed by both houses are: VITA's data center and office relocation, updates to the Commonwealth's base map and central address file, and obtaining adequate tools and staffing to meet mandated project management oversight responsibilities. In addition, a Senate amendment would build VITA's information security capabilities by establishing risk management audits of databases and operating an incident management response center.

House Appropriations Committee and Senate Finance Committee recommendations by subcommittee will be made public on February 6, with official reports on the respective money committees' budget proposals available on February 8. The budget conferees' recommendations will be published on February 24; the full Assembly's vote on the budget occurs February 26.

**Exhibit H**  
**VITA Amendments to the 2004 – 2006 Biennial Budget**

<b>Amendment Description</b>	<b>VITA Request</b>	<b>Governor's Recommendation</b>	<b>Comments</b>
Relocate data center	2005-\$0 2006-\$3.2M	2005-\$1.1M 2006-\$0	Funding is provided in the first year for 'preparation of the move of the State Data Center.'
Base map/address file	2005-\$0 2006-\$4.59M	2005-\$0 2006-\$1.5M	Assumes funding for aerial photography only. Uses \$1M in NGF and \$.5M in GF.
Incident management	2005-\$0 2006-\$1.57M	2005-\$0 2006-\$0	\$0.95M is being sought thru Homeland Security grants.
Program management tools	2005-\$1.94M 2006-\$1.41M	2005-\$0 2006-\$0.32M	Funds highest priority element of amendment (enterprise architecture).
E-government	2005-\$1.36M 2006-\$1.44M	2005-\$0 2006-\$0	
IT project planning fund	2005-\$0 2006-\$7.0M	2005-\$0 2006-\$0	
Small agency support	2005-\$0.53M 2006-\$0.51M	2005-\$0 2006-\$0	Start-up funds provide amount requested for FY 2005.
New administration transition	2005-\$0 2006-\$0.35M	2005-\$0 2006-\$0.10M	Funds staffing costs; hardware and software for 3 months
IV & V audit contracts	2005-\$0.49M 2006-\$0	2005-\$0 2006-\$0	Start-up funds provide GF share (\$290K) for FY 2005.

**Exhibit A**  
**Combined Balance Sheet**  
**Internal Service Funds**  
**December 31, 2004**

	<u><b>Actual</b></u>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash with Treasurer of Virginia	360,085
Petty Cash and Travel Advances	8,000
Accounts Receivable	32,030,816
Due From Other Funds	
Due from Commonwealth of Virginia	
Prepaid Expenses	<u>2,204,167</u>
<b>Total Current Assets</b>	<u><b>34,603,068</b></u>
<b>Noncurrent Assets</b>	
Depreciable Capital Assets, Net	<u>16,803,894</u>
<b>Total Assets</b>	<u><u><b>51,406,962</b></u></u>
<b>Liabilities</b>	
<b>Current Liabilities:</b>	
Accounts payable	6,269,571
Notes Payable	6,577,248
Advances from Treasurer of Virginia	
Accrued Compensated Absences	1,723,294
Other Deferred Revenue	156,467
Due to Federal Government	311,953
Other Liabilities	<u></u>
<b>Total Current Liabilities</b>	<u><b>15,038,533</b></u>
<b>Noncurrent Liabilities:</b>	
Notes Payable	6,792,473
Accrued Compensated Absences	<u>1,582,644</u>
<b>Total Noncurrent Liabilities</b>	<u><b>8,375,117</b></u>
<b>Total Liabilities</b>	<u><b>23,413,650</b></u>
<b>Net Assets</b>	
Investment in Capital Assets, Net of Related Debt	3,434,173
Unrestricted	<u>24,559,139</u>
<b>Total Net Assets</b>	<u><b>27,993,312</b></u>
<b>Total Liabilities and Net Assets</b>	<u><u><b>51,406,962</b></u></u>



**Exhibit B**  
**Combined Statement of Revenues, Expenses, & Changes in Net Assets**  
**Internal Service Funds**  
**For the Period Ended December 31, 2004**

	<u>Actual</u>
<b>Operating Revenues</b>	
Charges for Services	78,038,580
Total Operating Revenues	78,038,580
<b>Operating Expenses</b>	
Personal Expenses	27,747,109
Contractual Services	38,049,311
Supplies and Materials	251,607
Educational Assistance and Transfer Payments	220
Rent, Insurance & Other Related Charges	4,354,101
Depreciation	4,286,462
Expendable Equipment/Improvements	2,932,897
Total Operating Expenses	77,621,707
<b>Operating Income (Loss)</b>	416,873
<b>Nonoperating Revenues (Expenses)</b>	
Interest	(181,064)
Depreciation <sup>1</sup>	(42,762)
Reimbursement to Federal Government	
Revenue from the Sale of Recyclable Materials	725
Realized Gain – Assets	42,762
Proceed from Insurance Recoveries	
Sale of Surplus Property	
Loss on Fixed Asset Disposal	
Total Nonoperating Expenses	(180,339)
<b>Income (Loss) Before Transfers</b>	236,534
<b>Transfers</b>	
Transfers from Other Funds	
Transfers to the General Fund of the Commonwealth	(31,222)
Transfers from the General Fund of the Commonwealth	
Total Transfers	(31,222)
<b>Increase (Decrease) in Net Assets</b>	205,312
<b>Total Net Assets, July 1</b>	27,788,000
<b>Total Net Assets, December 31</b>	27,993,312

<sup>1</sup> The Auditor of Public Accounts, the State Comptroller's Office, and VITA agreed that VITA would recognize a gain on the receipt of transferred assets equal to the amount of depreciation recognized on those assets.

**Exhibit C**  
**Combined Statement of Cash Flows**  
**Internal Service Funds**  
**For the Period Ended December 31, 2004**

	<b>Actual</b>
<b>Cash Flows from Operating Activities</b>	
Receipts for Sales and Services	2,662,304
Internal Activity – Receipts from Other Funds	58,978,495
Internal Activity - Payments to Other Funds	(1,520,220)
Payments to Suppliers for Goods and Services	(7,687,369)
Payments for Contractual Services	(37,804,601)
Cash Payments to Employees for Services	(29,518,416)
Other	
Net Cash Provided by Operating Activities	<u>(14,889,807)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers In from Other Funds	
Transfers Out to Other Funds	(31,222)
Other Non-capital Financing Disbursements - Payment to Federal Government	<u>(530,822)</u>
Net Cash Used in Non-capital Financing Activities	<u>(562,044)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from Sale of Equipment	
Acquisition of Capital Assets	(834,967)
Principal Paid on Notes Payable	(3,183,399)
Interest Paid on Notes Payable	<u>(181,064)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(4,199,430)</u>
Net Increase (Decrease) in Cash	(19,651,281)
Cash, July 1	<u>20,019,366</u>
Cash, December 31	<u><u>368,085</u></u>

**Exhibit D**  
**Combined Statement of Revenues, Expenses, & Changes in Net Assets**  
**Enterprise Funds**  
**For Period Ended December 31, 2004**

	<u>Actual</u>
<b>Operating Revenues</b>	
Charges for Services	<u>21,793,530</u>
 Total Operating Revenues	 <u>21,793,530</u>
<b>Operating Expenses</b>	
Personal Expenses	210,792
Contractual Services	4,204,977
Supplies and Materials	5,497
Rent, Insurance & Other Related Charges	16,374
Depreciation	
Non-recurring Cost Estimate Payments to Providers	18,916,007
Expendable Equipment/Improvements	<u>16,144</u>
 Total Operating Expenses	 <u>23,369,791</u>
 <b>Operating Income (Loss)</b>	 <u>(1,576,261)</u>
<b>Non-operating Revenues (Expenses)</b>	
Receipts on behalf of others	14,317,725
Payments for receipts collected on behalf of others	(14,317,725)
Interest	
Expenses from Security Lending Transactions	
Loss on Fixed Asset Disposal	<u></u>
 Total Non-operating Expenses	 <u></u>
 <b>Income (Loss) Before Transfers</b>	 <u>(1,576,261)</u>
<b>Transfers</b>	
Transfers to the General Fund of the Commonwealth	
Transfers from the General Fund of the Commonwealth	<u>49,359</u>
 Total Transfers	 <u>49,359</u>
 <b>Increase (Decrease) in Net Assets</b>	 (1,526,902)
 <b>Total Net Assets, July 1</b>	 <u>14,403,865</u>
 <b>Total Net Assets, December 31</b>	 <u>12,876,963</u>

The Enterprise Funds include E-911 and VIPNet services. The transfer from the general fund is for fourth quarter 2004 interest earnings. Non-operating receipts are from customers using Virginia's portal services and payments are to the state agencies that own the websites accessed. June 30, 2004 statements are presented on an accrual basis for Commonwealth reporting purposes. All other monthly reports are presented on a cash basis.

**Exhibit E**  
**Combined Statement of Revenues, Expenses, & Changes in Net Assets**  
**General and Special Revenue Funds**  
**For Period Ended December 31, 2004**

	<b>General Funds</b>	<b>Special Revenue Funds</b>
Revenues	2,380,324	1,489,910
Expenditures	<u>1,081,022</u>	<u>1,054,935</u>
Revenues Over (Under) Expenditures	<u>1,299,302</u>	<u>434,975</u>
Other Financing Sources/(Uses)		186,623
Transfers in/(out)		<u>1,751</u>
Net Change in Fund Balance	1,299,302	623,349
Fund Balance, July 1		<u>3,075,365</u>
Fund Balance, December 31	<u><u>1,299,302</u></u>	<u><u>3,698,714</u></u>

General fund revenues represent general fund appropriations in the 2004 Acts of Assembly, Special Session 1, Chapter 4.